



## Treasury Inspector General for Tax Administration Office of Audit

### EFFORTS ARE RESULTING IN THE IMPROVED IDENTIFICATION OF FRAUDULENT TAX RETURNS INVOLVING IDENTITY THEFT

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## Highlights

Highlights of Report Number: 2015-40-026 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

Identity theft continues to be a serious and evolving issue which has a significant impact on tax administration. Undetected tax refund fraud results in significant unintended Federal outlays and erodes taxpayer confidence in the Federal tax system.

### WHY TIGTA DID THE AUDIT

This review is a follow-up to a September 2013 TIGTA audit report, *Detection Has Improved; However, Identity Theft Continues to Result in Billions of Dollars in Potentially Fraudulent Tax Refunds* (Report Number 2013-40-122). The overall objective of this review was to determine the effectiveness of the IRS's ongoing efforts to detect and prevent identity theft at the time tax returns are processed.

### WHAT TIGTA FOUND

TIGTA found that efforts continue to result in increased detection and prevention of identity theft tax returns. Nonetheless, the extent of the IRS's ability to stem this problem is still limited because it does not have access to third-party income and withholding information until well after tax return filing begins. The IRS continues to propose legislation to accelerate and expand its access to data that would further improve its detection efforts.

TIGTA's analysis of Tax Year 2012 tax returns identified 787,343 undetected potentially fraudulent tax returns with tax refunds totaling more than \$2.1 billion that have the same characteristics as IRS-confirmed identity theft tax returns. In addition, TIGTA's analysis continues to identify multiple tax returns with the same addresses and/or bank accounts which were not identified by the IRS's cluster-filtering tool.

Lastly, Individual Taxpayer Identification Numbers continue to be used to file potentially fraudulent tax returns. TIGTA identified more than 140,000 Tax Year 2012 tax returns filed by individuals using an

Individual Taxpayer Identification Number that have the same characteristics as IRS-confirmed identity theft tax returns. These tax returns resulted in the issuance of approximately \$375 million in potentially fraudulent tax refunds.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, continue to evaluate clustering filters to ensure that they properly identify tax returns with multiple uses of addresses and/or bank accounts; expand identity theft filters to address filing patterns that may indicate that a tax return is related to identity theft; and outline specific actions and time frames for implementation of a process to deactivate Individual Taxpayer Identification Numbers assigned prior to January 1, 2013, including Individual Taxpayer Identification Numbers assigned to individuals who are now deceased.

The IRS agreed with our recommendations. The IRS plans to continue evaluating identity theft-related fraud trends and review fraud filter performance to improve its clustering process. The IRS also plans to develop an action plan to deactivate Individual Taxpayer Identification Numbers.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2015reports/201540026fr.pdf>